A STUDY OF SOME MARKETING ASPECTS OF LEASING

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CERTIFICATE

Certified that the work presented in this thesis entitled ' A study of some marketing aspects of leasing ' by Ravi Prabhakar has been carried out under my supervision and it has not been submitted elsewhere for a degree.

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Ravi Prabhakar
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ABSTRACT

A lease is a contract where-by the owner of the asset (the lessor) grants to another party (the lessee) the exclusive right to use the assets, usually for an agreed period of time; in return for the payment of rental charges.

This study is about some marketing as well as some general aspects of leasing as relevent to our country. For this purpose we collected data from 24 firms which had recently taken equipment on lease. The data was collected by personal visits to each firm which in many cases led to face to face interaction and enriched our basic data.

The different reasons due to which companies go for leasing have been identified.

We have segmented the market for leased equipment into three segments and have analyzed the marketing oppurtunities in each segment. We have given some guidelines which can be helpful in formulating marketing strategies for these segments as well as an overall marketing strategy.

We have also critically examined the various merits of financial leases and the effect of financial lease on corporate credit policies.

CHAPTER 1

INTRODUCTION TO LEASING

A lease is a contract under which the lessee has possession and use of a specified asset on payment of specified rental over a specified period of time while the lessor retains its ownership. The asset is ordinarily selected from a manufacturer by the lessee and not the lessor.

Leasing started in the years following the world war 2 in U.S.A. when there was tremendous demand for capital to finance the reconversion to peace time economy. The earliest lease deals were in the real estate transactions in which the investor purchased the property and acted as a direct lessor. By the early 1950's the uses of leases as a financing tool had expanded to cover all sorts of equipment, often with a leasing company playing the role of an intermediary between the ultimate capital user and the institutional source of funds.

This is not to say that all leasing businesses are strictly financing businesses employing leases of a financial type. Parallel with the development of financial leases was a rapid growth in another kind of leasing business

whose function it was to provide short term use of equipment to business organisation which might have a temporary need for such equipment.

During the past 30 years or so leasing has emerged as an important instrument of financing among the industrially advanced countries while developing countries like India are of late adopting this instrument of industrial financing in an increasing measure.

Clasification of Equipment Leasing Plans:

1. Financial lease
2. Operating lease
3. Sales and lease back
4. Leveraged lease

Financial Leases:

A financial lease is defined as a contract under which a lessee agrees to make a series of payment which in total exceeds the purchase price of equipment acquired. Typically payments under a financial lease are spread over a period of time equal to the major portion of the useful life of equipment.

During the initial term of lease the contract is noncancellable by either party i.e. the lessee 's

irrevocably committed to continue leasing the equipment. In financial leasing goods are normally selected by the lessee before they are bought by the lessor.

Financial leasing or full payout leasing as it is some times called is a contract involving payment over a period,of specified sums sufficient in total to amortize the capital outlay of the lessor and to provide for lessor's borrowing costs and profit. The lessee is responsible for maintenance of the asset. The other costs associated with property ownership are also imposed on the lessee . These costs may include such things as property taxes, insurance etc.

There is generally a fixed rental charge per machine or piece of equipment. It is frequent to quote lease rentals in terms of Rs per thousand per month. Regardless of the basis on which rental charges are made and the form of payment, the rental must recover the value of leased machine plus a normal return on investment.

At the end of the lease period normally the lessor is granted either a purchase option or a renewal option at a sufficiently low price to permit inexpensive continuation of use of property.

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Operating Leases:

Operating leases can be defined as the leasing contracts that are cancellable by the lessee upon giving a due notice of cancellation to the lessor. Operating leases therefore donot involved any fixed future committment and are similar to most type of business expenditures. In an operating lease the lessor will have a continuing interest in the equipment. Under an operating lease the maintenance of equipment is usually the responsibility of the lessor. The rental charges in an operating lease are generally much higher than in a financial lease because the lessor takes the risk of obsolescence. Operating leases are very popular in computers and other data processing equipment. In our country operating leases are not very prevalent as still the leasing business is in its infancy.

Sales and Lease Back:

This transaction provides for an arrangement by which an entity that owns a given asset may sell it to the leasing company and lease it back. This enables the firm to immediately defreeze the money that is locked in the original asset which becomes available to it as working capital.

Leveraged Lease :

This lease arrangement is completed when very large assets are to be purchased. No one lessor is comfortable in committing the entire purchase price of the asset, nor can any one lessor absorb the depriciation benifits thrownout by the ownership of the asset. Accordingly several parties come together to acquire the asset and lease it to a lessee.

Most of the deals in our country are financial leases and unless specifically mentioned any reference to lease in subsequent chapters must be understood as financial lease.

Advantages of Leasing :

As there is no down payment except one installment of rent which is usually paid in advance it enables acquisition of fixed assets without any initial investment on the part of the lessee. So lease provides 100% finance whereas most of the financial institutions ask margin money to be extent of 20 to 30%.

Lease allows the lessee to retain his capital in a liquid form for use for alternative business purposes.

Since the entire lease rentals can be claimed as business expenditure by the lessee, leasing may be financially more attractife to concerns subjected to higher degree of taxes. Under leasing the cost of equipment is paid from pretax profits while outright purchase involves deployment of after tax profits/ own funds of the company. Also a lease transaction can be written off over a shorter period of time in which event effectively the asset is depriciated at a much faster rate.

Speed is the other major advantage. Lease offers finance much faster than financial institutions. Commercial banks and other financial institutions though efficient have to work through various hierarchichal levels to obtain credit approvals and have also to work closely with their lawyers in perfecting their security documentation. Since the lease agreement does not involve any specific document other than the lease agreement, leasing companies are in a better position to react quickly.

Leasing is an additional source of term finance to industry which leaves unimpaired their recourse to other forms of borrowing. Since leasing obligations donot appear a debt on balance sheet the financial ratios are not affected adversely. So bankers and other creditors are willing to extend more credit to the firm.

Leasing co's are willing to accept more risk and co's with poor credit standing can often obtain equipment on lease even when credit from other sources is not available to them. Lending institutions may sometimes treat lease as liability but give the borrower the benifit of uncertainity in determining the amount of liability. Also since leased assets are not reported as assets on balance sheet this is a boon to MRTP or small scale industries to further grow without crossing the statutory limits.

Under leasing the cost of an asset i.e. lease rentals can be paid out of additional cash generated from the use of same asset. Morever the various regularities and covenants to be adhered to in case of term borrowing from the institutions or market issues of capital can be avoided by going in for leasing.

The cost of leased equipment is precisely quantified over a period and so lessees would be more concerned about making full use of the equipment than in case of owned equipment where the opurtunity cost of lower capacity utilization may not be so evident. Also by going on lease a firm avoids all hidden costs of debt.

Disadvantages of Leasing :

1. Charges a higher interest rate. Lease rentals being

charged at present vary from Rs. 28-36 per thousand per month (around 40% per annum before tax). Also the rental rate charged from firms with poor credit standing is much more than other firms.

2. It may provide less attractive tax deductions compared to interest plus accelrated depriciation.

3. Reduces the flexibility to despose of obsolete equipment before the end of lease term in a financial lease.

4. Does not provide the prestige that goes with ownership.

5. Raises the fear of dispossesion of equipment if payments are not made during hard times.

6. There may be restrictions imposed with regard to use of the asset with respect to attachment of certain accessories to it or shifting of asset or number of shifts it can be operated.

7. Establishes a fixed obligation against the company.

CHAPTER 2

LEASING IN INDIA-PROBLEMS AND GROWTH PROSPECTS

The concept of equipment leasing is comparatively new to our country. However in a short span it has gained considerable importance as an alternative source of finance, benificial to both lessor and the lessee.

The scope for leasing in India is enormous. Lease finance requirement in the country is estimated at Rs. 1000/- crores per annum. The existing leasing co's account for less than 15% of the total requirement. So the scope for leasing in India is enormous.

There are several factors which necessiate the growth of leasing business in a big way in our country.

1) Limited scope of internal resource generation of companies.
2) Shortage of funds with financial institutions.
3) Rigid norms imposed by financial institutions in loan agreements.
4) Increase in capital costs .

There is lot of need of capital for our industry. Leasing by providing an alternative means of financing can play a vital role in the development of our economy.

Difficulties in way of Rapid Development of Lease Business:

1. Leasing co's in India donot enjoy the tax concessions similar to those available in other developed countries. There is an uncertainity regarding the entitlement of investment allowance.

The first leasing co. of India (FLCI) which was the first leasing co. to enter leasing business was denied the benifit of investment allowance by the commissioner of income tax Madras. N.A. Palkhiwala representing the company before the Madras tribunal secured a verdict entitling the lessors to investiment allowance. But the Chairman of central board of direct taxes has indicated that the lessor would not be entitled to investment allowance. Due to this a situation is created where both the lessor and the lessee are being denied the benifit of investment allowance, This has caused considerable confusion in the leasing industry.

2. Denial of concessional rate of sales tax:

Leasing co's do not have the benifit of 'C' form of sales tax and hence pay full sales tax on inter state purchases.

3. Restrictions on Import of Capital Equipment:

Import licences for machinery items at present are given only to actual users. Morever business of

equipment leasing is restricted to equipment manufactured in India only. Many industrial units cannot take advantage of leasing in respect of imported equipment. This is an unnecessary restriction and doesnot serve the interests of any one. An exception has been made recently in case of 100% export oriented units which can accept imported equipment on lease.

Proliferation of Leasing Co's:

The past year has seen proliferation of leasing firms. In 1981, there were few companies in leasing. When these co's went public and showed good performance it attracted many new companies into the business of leasing. As a result there was mushrooming of leasing companies and there are an estimated 200 co's at present, big and small in the leasing business.

The financial institutions like ICICI and IRCI have also commenced leasing operations.

Some of the well known leasing co's in India are:

20th century leasing, Ross Murarka Finance, Deccan Finance and leasing company, Nagarjuna Finance, Sundram Finance, Magna leasing, Motor and General Finance, Mazda Leasing, Pressman leasing, Shetty investiments and leasing co., and standard medical leasing co.

Many of the companies which started leasing were previously engaged in hire purchase operations. Many leasing co's took advantage of this boom to make a public issue and later on invested the money in some other activities. As a result many of the leasing co's were quoted below per in the stock markets and investers faith in them was shaken.

To stop the mushrooming of spurious leasing companies the govt has recently raised the paid up capital for a leasing co. to go public from Rs. 20 lakhs to Rs. 100 lakhs.

Leasing as a Marketing Tool:

Leasing has also emerged as a marketing tool for many manufacturers. Many manufacturers in tie up with a leasing company offer their product on lease. This is often done to stimulate the demand for that product and is common in industries where there is a strong need to stimulate latent demand. For example DCM data products and Ross Murarka Finance Ltd. offer DCM computers on lease terms. Fedders Lloyd offer their air conditioner on lease in tieup with united leasing.

The importance of of leasing is being realized now by many industries as a tool for stimulating their sales.

Tax Shelter :

Some group-leasing co's can use one company as a tax shelter for another. Consider for instance an situation where a group sets up a new company totally family held or even closely held. The asset needs of the new company are easily met by group leasing co. at a very low rental rates. At the same time as a balancing service the group leasing co. leases out assets to another publically held co. of same group at phenomenally high lease rentals. The later co. is benifitted as it writes of its lease rentals and thereby saves tax. In effect taxes that ought to go as govt. revenues are channalised into the former company. Thus even as shere holders of public limited company and govt. are deprived of what is rightfully theirs, the controlling family can be benifitted. In some other countries more than 20-30% of the portfolio is allowed to associate companies then depriciation is disallowed. So any day govt. decided that a leasing co. must give at least 50% to firms other than its own subsidiries the in - house leasing companies will be in trouble.

CHAPTER 3

PURPOSE AND METHOD OF STUDY

Purpose of the Study:

In our study we wanted to probe some marketing as well as managerial aspects of leasing. We tried to find out

1) Why firms go for leasing as a method of financing.
2) What is the process through which firms go in for selecting a particular leasing proposal. The criteria used for evaluation, analysis and screening of proposals, the various sources of information, various influences on the lessee and identification of the people involved in the above exercise.
3) The type of equipment generally leased out.
4) To know lessee's view on leasing in general and on certain advantages associated with leasing as claimed by leasing companies.
5) To find out whether the share of leasing is likely to rise/ remain about the same/ fall in the firms which have already taken equipment on lease.
6) Some general aspects involved in leasing relevent to our country.

Method of Study:

As leasing is new to our country the only available information about it was restricted to articles published in business magazines like Business India, commerce, capital and economic scene. Also there were some articles in economic times as well as financial times. This information was not sufficient to design a questionare. So we wrote to some leasing companies to further our knowledge of leasing. A discussion with company's executive was very helpful in understanding leasing as practicedin our country.

Based on these discussions as well as some other sources of information a questionare was designed to study some marketing aspects of leasing. A copy of questionare is enclosed in the appendix. The survey was to be carried out on firms which had recently aquired equipment on lease. For this again letters were sent to various leasing companies asking for a list of their clients who had taken equipment on lease. While these data were treated as confidential by some leasing companies, we were able to get sufficient leads to the lessee organizations in and around Delhi. We sent the questionare to these companies and then followed it up by personal visits to each enterprise. This lead to face to face interaction

and enriched our basic data. We were able to get 24 complete responses to our questionare. Our subsequent analysis is based on these 24 responses.

Basic Data:

As we had promised to various companies to treat all information in strict confidence we have given fictituous names to various companies. A brief description of the firms is given. Turnover given is for last financial year and the total assets are at the end of last financial year. Some of the firms however didnot give the turnover and asset data for reasons of confidentiality.

Sl.No.	Name of the firm	Main line of business of the firm	Total assets (lakhs)	Turn-over (lakhs
1.	Bombay Motor Car Co.	Trading in Vehicles	63	1400
2.	Suresh Nylon	Manufacture of Nylon tyre cord.	2849	4288
3.	Trishul Engineering	Manufacture of Sugar mill machinery.	1928	6000
4.	Ruby Cotton textiles	Manufacture of Textiles and nylon yarn	6815	11858
5.	Mahesh Electro-steel	Manufactures CRCA Steel Strips	525	1600

Sl.No.	Name of the firm	Main line of Business of the firm	Total assets (lakhs)	Turn-over (lakhs)
6.	Industrial Management Consultants	Management Consultancy	1	5
7.	Pawar Brokers	Oil Merchants	20	2500
8.	Plaza Advertising agency	Advertising Agency	1.5	120
9.	Sangam Distributors	Distribution of ITC/VST/ Amul	NA	600
10.	Govind Marketing Consultants	Advertising and Marketing	NA	NA
11.	Software Consultants	Software Consultancy	17	25
12.	Trishul Plenty Engg. Co.	Manufacture of process Equipment for ONGC	NA	NA
13.	Star Paper and Cement Industries	Manufacture of Paper Board and Cement	8914	9332
14.	Sood Lamps Pvt. Ltd.	Manufacture Telephone Poles, Lamps.	NA	100
15.	United Industries	Manufacture Crushers, Impactors for Cement Plants	NA	500
16.	Mahesh Ispat	Manufacture of Steel	660	1300
17.	Dulani Transport Company	Goods Transportation	NA	NA
18.	Chinar Engineering and Construction co.	Engineers and Contractors	400	1500
19.	Arvind Motor Car Co.	Manufacturing Brake Linings, Trading in Vehicles.	NA	2800
20.	Arjun Constructions	Civil Engineers	NA	NA

Sl.No.	Name of the firm	Main line of Business of the firm	Total assets (lakhs)	Turn-over (lakhs
21.	Bharat Communications	Manufacture of Electronics typewriters	NA	NA
22.	Standard Drug, Co.	Manufactures basic Drugs, Cosmetics, Pharmaceuticals	2622	3700
23.	Everest Cement Co.	Manufacture and selling of Absestos Cement Products	1049	5522
24.	Technology Transfer Consultants	Technology Transfer	NA	NA.

CHAPTER 4

WHAT INDIAN FIRMS FEEL ABOUT LEASING

Leasing companies claim number of advantages in favour of leasing. While some of these claims may not be correct it is important to know the lessee's view regarding the advantages claimed and the influence they had on a decision to acquire equipment on lease. A table giving the lessee's response to various claims is given.

TABLE

Sl.No.	Statement	Disagree	Agree	Strong influence on decision to lease
1.	Lease conserves cash flow by providing finance and allows a firm to employ its funds for working capital requirements.	2	22	16
2.	Rental charges of a lease are deductible from pretax profits.	0	24	13
3.	Formalities to be gone through for obtaining lease finance are much less than institutional finance.	2	22	7

Sl.No.	Statement	Disagree	Agree	Strong influnce on decision to lease
4.	By going on lease a firm can obtain funds without subjecting itself to restrictions imposed by institutional finance.	5	19	6
5.	Lease obligations are not reported as company's liabilities. So company's ability to raise credit from other sources remains unaffected.	5	19	8
6.	Lease provides almost 100% finance while banks and financial institutions require contribution from borrower also.	9	15	6
7.	Financial institutions generally sanction funds only for specific projects and not for few pieces of equipment. In such cases leasing provides a means to acquire equipment without straining the cash reserves of the company.	3	21	11
8.	Due to tax advantages leasing is generally more profitable than other alternatives.	12	12	6
9.	A leased equipment has no restrictions on use and is as good as one's own asset.	2	22	0

A majority of the respondents agree with most of the advantages clamed in favour of leasing by leasing co's. While financial leases do offer some definite advantages, the reason that most of the people agree with the claims made

by the leasing companies is due to the fact that most articles about leasing in newspapers and business magazines are written by people from leasing companies stressing that leasing is more profitable and the advantage of leasing are generally played up.

A majority of the respondents agree with most of the advantages claimed in favour of leasing by the leasing companies.

12 firms (out of 24) disagree with the claim that due to tax advantages leasing is generally more profitable compared to other alternatives. At the current rental rates leasing is certainly more costly than the cost of debt and that half of the firms think that leasing is generally more profitable compared to other alternatives indicates that many firms donot carry out a careful evaluation of lease proposals.

As leasing becomes more common and the analytical techniques for comparing lease with other alternatives become more accurate, more and more firms will realize that leasing is costly method of financing.

Considerable number of firms (9 out of 24) do not agree that lease provides almost 100% finance. This is

because some leasing companies charge advance to the tune of 20% especially to small companies. Most of the leasing companies however do not take advance. There is a practice of taking Ist months rental charges in advance. Leasing companies which insist on advance are likely to loose business to other competitors.

That lease conserves cashflow by providing finance and allows a firm to employ its funds for working capital requirements had a strong influence on the decision to lease in maximum number of firms. The second most influencing factor is that lease rentals are deductible from pretax profits. The 3rd important factor is that financial institutions generally sanction funds only for specific projects and not for a few pieces of equipment. In such cases leasing provides a means to acquire equipment without straining the cash reserves of the company. Other factors were also considered important by some firms.

Most of the firms feel that the leased equipment is as good as ones own equipment and there are no restrictions on its use.

Most of the firms agreed that by going on lease the company's ability to raise credit from other sources remains unaffected.One firm indicated that by borrowing

from different types of sources a firm can raise greater amount of debt than would be available from a single source. While most of the firms felt that by going for leasing a firm can obtain more funds than would be available if the firm went only for debt financing, some other firms were of the opinion that basic credit restriction is ability to meet payments regardless of whether on a lease or a debt. These firms indicated that both leasing and term loan were fixed obligations and one has to see his ability to pay them back before going in either for a lease or for a debt.

CHAPTER 5

THE LEASING PROCESS IN DIFFERENT MARKET SEGMENTS

Marketing in a firm consists of ~~ø~~an integrated strategy aimed at providing customer satisfaction . Each company's oppurtunity to generate revenues from a market depends in part on how well its marketing offer meets potential market requirements. So there is a need to understand the requirement and the behaviour of the market.

An organization that decides to operate in some market normally cannot serve all customers in that market. The customers are too numerous or different in their buying requirements and buying practices to be effectively and superiorly served by one organization. This calls for two steps.

1) Market segmentation : This is the act of subdividing a market into distinct and meaningful subsets of customers who might merit seperate marketing program and effort.

2) Market target selection : a market target is a group of customers towards which an organization directs its marketing efforts. Target marketing is the act of evaluating selecting and concentrating on those markets that the company can serve most effectively.

Basis of Segmentation:

We had data regarding 24 firms which had taken equipment on lease. Two methods of segmentation were considered.

The first method was based on the primary reason due to which a firm was attracted towards leasing. The market was divided into 3 segments A,B and C. All of these firms which were attracted towards leasing primarily due to taks benifits and considered leasing to be financially more attractive compared to other means of acquiring equipment.

Segment B: Firms which went for leasing because an investment proposal was faced with shortage of funds.

Segment C: Firms which went for leasing because leasing had emerged as a new method of acquiring equipment.

There were vast differences in the behaviour of these segments. Also the resulting segments were large enough but it was felt that it would be difficult for a leasing company to identify these segments. The identification of segments was very easy for us but it would be very difficult for a leasing company to know a priori why their clients take equipment on lease. So this method of segmentation was not followed.

In the 2nd method of segmentation the following segments were identified.

Segment A : Firms engaged in non-manufacturing activities

Segment B: Small to medium sized manufacturing firms

Segment C: Large manufacturing firms.

These segments were sufficiently large and also were easy to identify. Also considerable difference was found in these segments. So this method of segmentation was choosen.

Segment wise Breakup of Firms:

Segment	Main line of business	Number of firms	Name of the firms (disguised)
A	non-manufacturing activities like trading, advertising consultancy and marketing.	9	Sangam distributors, pawer brokers Dulani transport co.,Govind marketing consultants software consultants, Arvind motor car co.,Plaza advertising agency, Industrial management consultants, Bombay Motor car co.
B	Small to medium sized manufacturing industries	6	Chinar engineering and construction co. Arjun constructions, united Industries, Bharat Communications, sood lamps Pvt. Ltd.

Segment	Main line of Business	Number of firms	Name of the firms (disguieed
C	Large manufa-cturing industries	9	Ruby cotton textiles, Mahesh electrosteel, Mahesh ispat, Trishul Engineering ,Trishul plenty engg. Co., Standard drug co., Everest cement co., Suresh Nylon, star paper and cement industries.

Types of equipment taken on lease :

Almost all types of equipment are taken on lease. Manufacturing machinery accounts for the largest share (38.7%) followed by material handling equipment (33.4%) as shown in table.

TABLE

AMOUNT IN LAKHS

ype of equipment	Segment A	Segment B	Segment C	Total
Generator	0 (0%)	0 (0%)	23(8.1%)	23(5.2%)
Vehicles	11.25(33.4%)	4.5(4.3%)	12.7(4.1%)	26.45(6%)
Airconditioners	3.6 (13%)	5.0(4.9%)	9(2.9%)	17.6(4%)
Material handling equipment	0	13(12.7%)	135(43.2%)	148(33.4%)
Computers	4.58(16.3%)	2(1.9%)	6(1.9%)	1258(2.8%)
Manufacturing machinery	7.5(34.3%)	73(71.2%)	89(28.5%)	171.5(38.7%)
Office equipment	.78(2.8%)	5(4.9%)	38.9(12.2%)	43.81(9.9%)
Total	27.7(100%)	102.5(100%)	312.89(100%)	443
Average/firm in lakhs.	3.07	11.71	34.75	

Further the table reveals marked differences among segments in the size of deals, and there relative emphasis on different kinds of leased assets. These are discussed below.

Size of Segments:

Segment C accounts for the maximum equipment leased (70%). It is followed by segment B which accounts for

23% of the leased equipment. Segment A accounts for only 7% Further the average amount of equipment leased/firm is also higher for Segment C (34.75 lakhs) followed by Segment B (11.71 lakhs) and segment A (3.07 lakhs).

This gives the impression that the total leased equipment in Segment C is much larger than in Segment B and A. This is not correct due to following reasons.

There was a tendency in our study to cover larger firms because there are people in these firms which can fill the questionare and also the leasing companies generally gave name of big clients for reasons of prestige. In addition to this we also felt that the bigger companies which had got seperate departments like finance will understand the issues involved in a better way.

Many of the small co's with small lease deals involving only few thousand rupees either may not have significant exposure to leasing to be able to help us or may not be interested in filling the questionare. So the actual number of leasing co's in Segment A and B may be much larger than covered by our study and the equipment taken by these segments may also be more.

Comparision of the Pattern of Leased Equipment taken by Segments:

In Segment A material handling equipment and manufacturing machinery form the largest chunk of equipment leased. In Segment B manufacturing machinery and in Segment A vehicles form the largest chunk.

Generators have been taken on lease by Segment only. Also the percentage of leased vehicles, airconditior and computers is much higher in Segment A compared to othe Segments. Similarly the share of office equipment is mucr higher in Segment C compared to other Segments.

Reasons for Difference:

The differences in the pattern of equipment taken on lease by different segments is mainly due to difference in the type of activities in which the firms are engaged in the 3 segments.

Segment A consisting of non-manufacturing firms mostly takes vehicles, air conditioners and computers on lease. The office equipment taken by this segment is low because leasing co's are willing to give office equipment (like furniture, carpets) to A class clients only. The reason is that there can be problem with resale of these items and so leasing companies give such items only to

financially sound co's. One firm in this segment has recently started some manufacturing activity and due to that share of manufacturing equipment is significant in Segment A . Segment B consists of small to medium sized manufacturing firms. The major requirement of these firms is manufacturing machinery and material handling equipment to some extent.

Segment C leases almost all type of equipment but being basically large manufacturing concerns the share of manufacturing and material handling equipment is more.

<u>The Initial Impetus to Lease:</u>

The initial impetus for leasing may come up due to various factors. Some companies might consider leasing on being approached by a leasing co.,while others may be forced to consider it when a capital investment proposal is faced with shortage of funds. The following main factors listed in the table were found out.

TABLE

	SEGMENT			
Initial Impetus	A	B	C	Total
1. A leasing co•approached with a proposal	-	-	3	3
2. An investment proposal was faced with shortage of funds.	5	2	-	7
3. Leasing had emerged as a new method of acquiring equipment	3	4	8	15
4. Tax benifits due to leasing	3	1	2	6
5. Personal Contacts	2	-	-	2
6. Introduced by the the manufacturer	3	-	-	3

In most of the companies the alternative of leasing an equipment was considered because leasing had emerged as a new method of aquiring equipment. The other main important reasons were shortage of funds for a capital investment proposal (in 7 firms out of 24) and tax benifits due to leasing (in 6 firms out of 24).

Comparision of Segments:

Most of the firms in Segment A gave shortage of funds as the reason due to which a proposal for leasing

was considered. In Segment B and C most of the firms considered leasing as it had emerged as a new method of acquiring equipment. Some firms in Segment C also considered leasing when they were approached by a leasing company while none of the firms in Segment A and B were approached by a leasing co.. Personal contacts and advice of manufacturer were also important factors in Segment A while they were not of any importance in other Segments.

Reasons for Difference:

Firms in Segment A were engaged in non-manufacturing activities and about half of them were new firms due to which they were operating on a low capital base. So the firms were consequently faced with shortage of funds. The executive of a small firm told us that leasing didnot cause any immediate financial burden on the firm and he was confident of meeting the lease rentals in future out of cash flows generated by his business. As the firms involved in Segment A were small personal contacts were also important.

For most of the firms in Segment B and C leasing had emerged as a new method of acquiring equipment. This may be due to the fact that these companies have seperate finance departments due to which they were more aware of the emergence of leasing and therefore considered it.

Other Financial Options which Compete with Leasing:

Other financial alternatives like term loan and out-right purchase compete with leasing. The following table shows that the number of firms which considered these alternatives before deciding to acquire equipment on lease.

TABLE

	SEGMENT			
Financial Options	A	B	C	Total
Considered out-right purchase only	6	4	-	10
Considered term loan only	1	-	1	2
Considered both outright purchase and term loan	1	1	6	8
Considered none	1	1	2	4

Outright purchase was considered by maximum number of firms (18 out of 24). Term loan was considered by 8 firms (out of 24), while only term loan was considered by 2 firms only. So most firms do consider other financial options when they go for lease and lease has to complete more often with outright purchase than with term loan. So in many co's leasing may be considered when term loan option is not open.

Comparision by Segments:

Contrary to the generaltrend the term loan option is considered by majority of the firms in Segment C (large manufacturing concerns). Most of the firms in Segment C consider both outright purchase and term loan option while most of the firms in segment A and B consider outright purchase only.

Reasons for Difference Between the Segments:

For Segment C firms the term loan from financial institutions may be more easily available since they are large public limited co's. For smaller firms in Segment A and B easy access to institutional finance may not be available or these firms might have already crossed the limit of their borrowing. An indication of this is from the fact that for most firms in segment A the impetus for leasing was the shortage of funds for a capital investment proposal.

Extent of Formal Analysis:

We wanted to know whether companies make any formal analysis comparing lease with other alternatives and the basis on which such analysis was made. While some companies may carry out the analysis on future cash flow basis , others may carry it out on return on investment basis or some other criteria.

TABLE

Formal Analysis on	SEGMENT A	B	C	Total
Future cash flows only	3	1	-	4
Return on investment only	2	-	1	3
Both on future cash flow and return on investment	1	4	8	13
No analysis	3	1	0	4

Most of the companies evaluate the lease proposals with other alternatives both in terms of return on investment and future cash flows.

Differences in Segments:

More extensive analysis both on future cashflows and return on investment is carried out by firms in Segment B and C than in Segment A.

Reasons for Difference:

The firms in Segment B and C have got formal finance or accounting departments due to their bigger size compared to segment A and hence are in a position to carry-out through evaluation of Lease vs. other alternatives.

In many firms in Segment A the evaluation is carried by the chief executive himself and many times it is not a detailed evaluation.

Number and Variety of Proposals Received:

This gives an idea of the choic a lesseee has got in the selection of a leasing company. Normally one proposal was received from a leasing co. and so number of proposals received is indicative of the number of the leasing co's which submitted proposals for leasing of a particular equipment to the lessee. The firms which approached a bank acting as a lease broker are not considered as proposals were screened by the bank.

Number of proposals Received by a firm

Segment	1 proposal	2-4	5-7	8 and more
A	3	6	-	-
B	-	4	-	-
C	-	1	-	3
Total	3	11	2	3

Most of the firms got 2-4 proposals (11/19). While some firms got as many as 10 proposals others got just

one proposal. So there is a wide variation in the choice which different firms have in making a lease deal.

Differences Between Different Segments:

Firms in Segment A receive very few proposals while firms in segment C get many proposals clearly is an indication that leasing co's attach considerable importance to this Segment. All firms in segment B got 2-4 proposals. So firms in segment A have very less choice while Segment C firms have considerable choice.

Reasons for Difference:

The firms in Segment C are all big public limited co's and as the deals involved were big many leasing co's tried to secure the lease deals. Also many firms in segment C themselves approached many leasing co's and also many were approached by leasing co's . The risk involved in giving lease to these co's is almost negligible and so many leasing co's were interested.

In Segment A the deals involved are Quite small, and also many co's are not interested in giving lease to small parties as they consider it to be bit risky. Some firms in Segment A went for leasing due to shortage of funds and grabbed the only offer that came their way. Also hardly any leasing company approached Segment A.

Variety of Proposals:

Most of the firms have indicated that the proposals were not very different. The difference was mostly in the rental rates.

Besides rental rate the other difference between different proposals was that while some leasing co's asked for advance to the tune of 20% other's didnot ask for it. Only one co. has indicated that it got proposals which were very different from one another. Some of these proposals offered variation in rental rates. But on the whole the lease proposals lack inovation and are almost similar due to which lessee's do not have much of a choice.

People Involved in Making a Lease Decision:

1) People Involved in Analysis of lease vs. term loan vs outright pruchase:

In most of the firms where a separate finance department was there generally the finance manager or Finance Officer were involved in such an analysis. In smaller co's where a seperate finance department was not there the chief executive was himself involved in such an analysis. In some co's commercial manager and company secretary were also involved.

2) Main people involved in Screening of Lease Proposals:

In most of the Co's this was again done by finance department. An idea of the people involved is given in the table.

Designation	Number of firms.
Manager Finance	8
Finance Controller	4
Accounts Manager	3
Finance Officer	3
Chief Executive	9

People who are involved in screening of proposals were also involved in analysis of proposals.

In larger firms of segment C the chief executive was never involved in the screening of proposals while in Segment A firms the chief executive was almost always involved.

3) Person who gave the final approval to make lease deal with a specific leasing co.:

In about half of the firms the deal was approved by chief executive. This is true in Segment A and B. In segment C firms the final approval was given by the head of finance department like General Manager (Finance) or Finance manager.

Effect of Sales Team Visit:

Whenever the lease deals involve substantial amount it is common for the leasing co's to send their sales team except when lease deal is made through a bank. The tasks performed by sales team may differ from merely completing the lease agreement and other formalities to selling the lease proposal.

Out of the 19 firms (not including the five which went through the bank) 15 were visited by sales teams, as shown below in the Table.

Segment	Number of firms visited by sales team	Number of firms which feel visit was effective	Number of firms which feel the visit was not effective
A	5	5	-
B	3	1	2
C	7	3	4
Total	15	9	6

All firms in Segment C (excluding those firms which went through bank were visited by the sales team while only half of the firms in segment A were visited

by the sales team. This may be due to bigger deals involved in Segment B and C compared to Segment A.

All firms in Segment A felt that the visit by sales team was effective while most of the firms in Segment B and C felt that the visit was not effective.

The reason for this may be that firms in Segment B and C consisted of seperate finance departments and had people with a better understanding of leasing who were not impressed much by the arguments of sales team.

The positive points mentioned by respondents about the sales team are:

1) Contributed information to clarify the screening and decision making process.
2) Communication of relative advantages of leasing and of the particular lessor.

The negative points mentioned are

1) Inability to spell out all details .
2) Inability to understand buyer's position.
3) Hiding of actual interest rate.
4) Poor follow up.
5) Not well familiar with the leasing terms.

Inspite of these short comings the firms which were not visited by sales team were hopeful that such visits would be useful.

Influence of Outsiders on Decision Process:

Most lessee's (14 out of 24) are influenced by the advice of other lessees, lease brokers and consultants. The table given below gives the details Segment wise.

Influence by outsiders

Segment	Other lessees	Bank acting as a lease broker	Other lease brokers	Consultants.
A	2	-	-	3
B	-	2	-	2
C	2	3	3	1
Total	4	5	3	6

Consultants have got a considerable influence on Segment A while firms in Segment B consult them only for initial familiarization and firms in Segment C do not consult them al all.

The advice of other lesse's has got a considerable influence on firms in Segment A while they donot have much

influence in other segments.

The bank (acting as a lease broker) has considerable influence on segments B and C while no firm in Segment A was advised by the bank. The firms in Segment B which consult the bank depend totally on the bank and generally get a package deal from the bank. Though the bank's recommendation has got a considerable influence on Segment C firms also, they consult it mostly to come in touch with one or more leasing companies and carry out the negotiations themselves.

Other lease brokers have a moderate influence on some firms in Segment C and no influence on firms in other Segments.

The merchant banking division of the Grindlay's bank act as a lease broker in many big deals. When a co. which wants to take equipment on lease approaches the bank with a proposal the banks gets in touch with various leasing co's and helps both the lessee and a particular leasing co. to reach an lease agreement. The bank charges a commission from both the parties. The bank ensures that the rental rate charged is at the prevailing market rates and the lease agreement does not contain any clause which is not in lessees interest.

Since leasing is new in our country outsiders advice can have considerable influence. Firms without any previous exposure to leasing often seek advice from outsiders.

Effect of Advertisements:

Advertising is one of the major tools companies use to direct persuasive communications to target buyers. 16 firms out of 24 recalled seeing advertisements of leasing co's.

Since most of these advertisements were for public issues it didnot have any considerable effect on most of the firms. Some firms however indicated that though the advertisements were mostly for public issues only it created an awareness that leasing was coming in a big way and that this option was also available for acquiring equipment.

3 firms indicated that besides public issues they had seen other advertisements also which had a favourable effect on them. The co's mentioned in this regard are 20th century leasing Ltd. and Ross Muraka Finance Ltd.

The leasing co's recalled by 5 or more respondents are:Midwest leasing, 20th century leasing, Ross Murarka finance, Nagarjuna Finance and First leasing co.

while almost all firms in segment C recalled seeing advertisements only about half of the firms in segment A and B recalled seeing advertisements. Also all the 3 firms which have indicated a favourable effect of advertisements belong to segment A. This means that segment A can be influenced by advertisements more than the other segments and any firm going after segment C must pay special attention to advertising.

Prefered Attributes of the Lease Package:

The lease package can be viewed as a product. The attributes of a lease package which are considered important by the lessees are given below.

The number given outside the bracket gives the number of firms which have given an attribute as Ist criteria. The number inside the brackets gives the number of firms which have given an attribute as 2nd criteria.

Attribute	A	B	C	Total
1. Average rental rate	3(3)	5 (1)	7(0)	15(4)
2. Suitability of payment plan	3(5)	1 (1)	1(6)	4(12)
3. Reputation of leasing co.	0(1)	0 (1)	3(1)	3(3)
4. Link up with manufacturer	3(0)	0 (0)	0(1)	3(1)
5. Termination Option	0(0)	0(3)	0(0)	0(3)

Average rental rate is considered to be of utmost importance in segment B and C. Though it is considered important in segment A also but it is not considered as important as in segment B and C.

Suitability of rental payment plan is considered more important by segment A than segment B and C.

Reputation of le sing co. is considered quite important by segment C only.

The link up between a leasing co. and the manufacturer is of considerable importance in segment A while it is not of much importance in other segments.

Segment B attaches more importance to termination option compared to other segments where it is hardly of any importance.

Reasons for Difference:

Most of the firms in segment A were faced with shortage of funds and so suitability of payment plan was more important for this segment compared to other segments, The deals involved in this segment were small and in some cases when a firm wanted to buy a specific piece of equipment from a manufacturer who had a tie up with a leasing co. the choice before the firm was limited

to a specific leasing co. only. So link up between manufacturer and leasing company was quite important in this segment.

Segment B and C firms were attracted towards leasing because it had emerged as a new method of acquiring equipment. These firms had considerable choice before them and had seperate finance departments. These firms were a better position to bargain for better terms and so the interest cost of the lease plan was the most important criteria.

Segment B which consists of small to medium size manufacturing firms seems to attach more importance to termnination option than other segments. The maximum share of leased equipment in segment B is manufacturing machinery and the segment may be interested in using it after the lease period also.

Segment C consisting of large manufacturing concerns had better understanding of leasing and were aware that there is a fear of dispossion of asset in case the leasing co. winds up and so attach considerable importance to the reputation of the leasing co. compared to other segments.

Future trend in Leasing in Different Segments:

The future of leasing depends on number of factors

1) The demand for equipment.
2) The status of tax laws.
3) The extent to which banks and financial institutions are able to meet the finance requirements of the corporations.
4) The extend to which lease as compared with other means of aquiring equipment meets the needs of the individual firms.

This depends on

a- The terms of agreement.
b- The availability of cash to the corporation.
c- The worth of the Re. to the firm.

Most of the firms 19 (out of 24) have indicated that the share of leasing is going to rise in future aquisitions. Two firms have indicated that it is likely to remain same while 3 firms have indicated that it is likely to fall.

This means that there is going to be a substantial increase in the demand for leased equipment in future.

Industry-Wise Trend:

The number within the brackets indicates the number of firms in which share of leasing is likely to fall in future, while the number outside the brackets gives the number of firms in which share of leasing is likely to rise in future.

TABLE

	SEGMENT			
Type of equipment	A	B	C	Total
Generator	1(1)	1(0)	1(4)	3(5)
Vehicles	6(0)	1(0)	5(1)	12(1)
Air Conditioners	5(0)	2(0)	2(1)	9(1)
Material handling	0(0)	3(0)	1(2)	4(2)
Computers	6(2)	1(0)	4(0)	11(2)
Manufacturing Machinery	1(0)	4(0)	2(3)	7(3)
Office equipment	2(0)	1(0)	6(0)	9(0)

Generators:

Because of subsidy available on purchase of generators many co's feel that leasing of generators is going to be less in future.

Vehicles:

There is a bright scope for leasing of vehicles. The demand for leased vehicles is likely to be quite high in segment A which consists of non-manufacturing firms.

Segment B has taken very less vehicles on lease and also is not likely to take much vehicles on lease in future also. In segment C there is likely to be good demand for vehicles in future also.

Airconditioners and Referigration Equipment:

There is likely to be good demand for air conditioners in future.

The scope is particularly good in segment A. In leasing of air conditioners a link up between a manufacturer and a leasing co. can play a very important role. The scope is not very good in segment B and C.

Material Handling Equipment:

While the demand for material handling equipment is likely to rise in segment B, it is likely to fall in segment C. Segment C has indicated preference for non-investment items and so this is to be expected.

this is that no investment allowance is available on many types of office equipment . The demand for office equipment is likely to rise very much in segment C.

CHAPTER 6

CONCLUSIONS

Marketing Strategies for Different Segments:

Marketing in a firm consists of an integrated strategy aimed at providing customer satisfaction. We have segmented the market for leased equipment into 3 segments.

1) Non manufacturing firms: Segement A
2) Small to medium size manufacturing firms: Segment B
3) Large manufacturing firms : Segment C.

We analysed the preferences of each segment as well as the differences among them. We now analyze the market oppurtunities in each segment and give some guidelines which can be helpful in formulating a marketing strategy for each of these segments. The exact formulation of a marketing strategy will require much more information about the extent of competion in each segment and the size of each segment . On basis of the data collected as well as the knowledge gained during carrying out the survey certain broad guidelines for formulating a marketing strategy are given.

It is left toaleasing co. to select one, two or all segments as market targets based on its own strengths and assesment of the situation.

Segment A (non-manufacturing firms):

In segment A most of the firms gave shortage of funds as the main reason due to which a leasing proposal was considered. The core benifit which the customer (potential lesee) is seeking in this segment is no immediate financial burden. Most of the firms in this segment are trading, advertising or consultancy firms which operate on a low capital base and donot want to lock their capital in any fixed asset. For these co's leasing comes very handy in acquiring assets which involve substantial capital outlay but are essential for running the business. Many firms in this segment donot have a good idea of leasing oppurtunities available to them and there are many firms in this segment which can be potential lessees but these , firms are not aware of ease with which they can get equipment on lease and they have not been approached by leasing co's.

An evidence that the firms in this segment donot have a good idea of leasing opurtunities available to them is that 6 firms (out of 9) in this segment had

to pay an advance to the tune of 20%. These firms could have easily got the leasing offer with no advance had they known about some other leasing co's. Certainly these firms which wanted to avoid any immediate financial burden would have greatly benifitted by a no advance lease payment plan. If any leasing co. not asking for advance had approached these firms it could have surely made the lease deal. So this segment is being neglected by leasing co's and they must pay more attention to this segment where a higher profit margin can be earned.

Firms in this segment feel that the sales team sent by leasing co's were effective. The choice before this segment is less as number of proposals received are very less and few co's carry out negotiations to get more favourable terms. So competition in this segment is quite less and much efforts are not needed for making a lease deal.

In this segment the deal is made directly between the leasing co. and the lessor, without intermediaries.

Also in this segment there is a high repeat purchase. The leasing co's must keep on approaching the lessees for futher business. Also many firms in this segment were influenced by advice of other lessees. So

the leasing co. must maintain a continuous relationship with lessee. A leasing company can keep inquiring about whether the equipment is functioning properly and if not the leasing co. can apply for warrantry or request the manufacturer to provide service. Even though the leasing company will continue to receive the monthly rental payments whether the equipment is functining or not, such small things will lead to better ' post-purchase feelings and can generate further business from the same lessees and also the lessee may recommend the name of the leasing co. to some other potential client.

Many firms in this segment are influenced by advice of chartered accountents. So leasing co's must also approach chartered accountants and even a small commission can be paid to them if a client comes through them.

None of the co's in this segment were approached by the leasing co's. 3 firms in this segment have indicated that they were introduced to the possibility of acquiring equipment by leasing by the manufacturer who had link up with a specific leasing company. Such types of linkup can thus mean a lot of business for the leasing co. Customer inquiries which are sparked by interest in purchasing the equipment may many times end up as acquisition by leasing. So a whole new segment of clients which

was not available earlier may now be available to them. Such type of link up limits the choice of a lessee to a single leasing company,

Suitability of rental payment plan is considered quite important by this segment. It can be infered that these firms prefer a proposal with minimum amount of immediate financial burden. A rental payment plan providing for variation in rental payments with lessee's cash flows will be very much liked by this segment.

Many firms in this segment would like to pay a less rental charge in the initial months and a higher rental charge in the later periods. The leasing co's must provide for such options and can charge a slightly higher rental rate for these variations.

Segment A mostly takes vehicles, computers and other data processing equipment like electronic typewriters on lease. The future of leasing in this segment is very bright and all companies except one have indicated that in future the share of leased equipment is likely to rise.

The demand for leasing in future is likely to be very high in following items.

1) Vehicles
2) Airconditioners
3) Electric and electronic typewriters
4) Computers and word processors

Keeping this in view a tie up with a reputed manufacturer in these fields can give a differential edge to a firm in this segment.

Most of the leasing co's were earlier hire-purchase co's and many firms which had earlier taken the equipment on hire purchase may be interested in taking it on lease. So such firms must be approached.

Segment B (small and Medium Sized Manufacturing Firms):

In this segment there is likely to be high demand for leased equipment in future. While the large co's in segment C have indicated that they are not likely to lease items on which investment allowance cannot be claimed, this segment has no such preference and has in fact indicated that the share of leasing in future acquisition of manufacturing machinery is likely to rise. Out of the total equipment leased by this segment manufacturing machinery accounts for 71.2%.

Leasing of manufacturing machinery can be quite profitable to leasing co's as they can claim investment allowance and dèpriciation which can give them valuable

tax shelter.

This segment also seems to be bit neglected by leasing co's. None of the co's were approached by the leasing co's. Personal links as well as link up with a manufacturer have also not played any significant role in this segment. The reason may be that there is no leasing co. with a linkup with a manufacturer of machine tools or other manufacturing machinery. A link up with a machine tool manufacturer can help a leasing company to get accross to more firms in this segment and thus will help it to broaden its customer base.

Many firms in this segment considered leasing as it had emerged as a new method of acquiring equipment. Also this segment received more proposals compared to segment A but less than segment C. The segment is not very impressed with the sales team sent and so there is a need to send more prefessional sales team as the deals involved are also sufficiently big. The sales team failed to convince this segment about the tax benifits of leasing. Also the firms complamed of poor follow up.

Some firms in this segment seek the advice of chartered accountants as in case of segment A. So leasing companies must establish contact with chartered accountants.

Some other firms go to bank which acts as a lease broker. The leasing co. should not try to contact the lessee on its own and try to make a deal with the lessee directly , by-passing the bank. This way the leasing company and the lessee may be able to avoid paying brokerage fee to the bank but the bank takes it as an unethical practice and it is not likely to send any future offer to the leasing company. Also a reasonable rental rate must be quoted for offers through the bank.

Average rental rate is considered quite important by this segment. Contarary to other segments the lessees in segment B attach more importance to availability of better option at the termination of the lease. This is due to the fact that this segment mostly takes manufacturing machinery on lease and are interested in using it even after the lease agreement is over. So a suitable termination option must be incorporated in a lease package designed for this segment.

Many firms in this segment think that leasing is generally more profitable compared to other alternatives due to tax advantages. This is more of an illusion than a reality and it shows thst a proper evaluation of lease proposals is not carried out. To make the claim of tax advantages more real the leasing co's should design

innovative and custom tailored lease packages which allow for variation of lease rentals so as to provide more tax shelter to the lessee. The lease rentals can be provided on an accelrated or deaccelrated basis or can be varied depending on the taxable profits of the co..

Advertisements can have a good influence on this segment. They can help in creating awareness and is a good means of reaching clients in this segment. Though most of the advertisements are for public issues yet one firm in this segment has indicated that it created a favourable effect.

Segment C (Large Manufacturing Firms):

The deals involved in this segment were quite big compared to other segments. This segment receives much more attention from leasing co's compared to other segments. The risk involved in giving lease to firms in this segment is very less but the rental charges are also lower compared to other segments, this segment also takes lot of office equipment on lease which is many times not given to segment A firms.

In this segment the reason given by most co's for considering leasing is that leasing had emerged as a new method of acquiring equipment and some firms

considered it when they were approached by a leasing company. Also many firms in this segment got as many as 10 proposals and carried out extensive negotiations with many leasing co's to get better terms.

In this segment most of the firms also keep the option of outright purchase and term loan open when they are considering lease proposals and so lease has to complete closely with these alternatives. So much profit margin cannot be expected. To make leasing more attractive considerable flexibility should be there in the lease proposal and there should be option of making monthly, quarterly, half yearly or yearly payments.

Also the variation of rental rate or rental payment plan allowing for early write off or to give a better tax shelter should be provided.

Reputation of a leasing co. is considered very important by this segment. A tie up with a reputed manufacturer can enhance the reputation of the leasing company. The tie up between Ross Murarka Finance Ltd. and DCM data products for their computers which was vigrously advertised is a case in point. Reputation of a leasing co. depends on the directors, bankers, financial position of the company as well as its dealing with its

clients.

Advertisements can also play a role in building a good image of a leasing co. 2 firms in this segments have indicated that the advertisements of some leasing co's had a favourable effect on them.

A visit by sales team is very essential in these segments and the sales team which visited these firms were not considered to be effective by many firms. Since the deals involved in this segment are big and as the client is having sufficiently good idea regarding leasing the sales team must consist of more professional people. Instead of just completing the lease formalities the sales team should try to create a favourable image of leasing co. and must show interest in client's problems.

There is a high potential for sales and lease back transactions in this segment. Leasing co's are not giving licence to import machinery, cars etc. and give it on lease, Many co's which have acquired important machinery, cars on a quite high cost want to free their capital. Also as no depriciation is allowed on imported machinery, leasing becomes more attractive. In such cases the leasing companies may purchase the equipment and again lease it back to the same firm. Many co's having large amount of funds tied up in fixed assets may be interested in defreezing the

Overall Prognosis of the Leasing Market:

The past year has seen the growth of a large number of leasing companies and many more are likely to enter this field. As the market becomes more and more competitive the leasing co's will have to resort to specialization and try to build their strengths in specific areas.

At present there is very little specialization in the Indian leasing business. The lead has been taken by standard medical leasing co. which specializes in leasing of medical equipment. Anyone thinking of acquiring medical equipment on lease is more likely to aquire it from Standard medical leasing co. rather than any other leasing co. and so the specialization has given the co. a definite edge in this field over the other co's. The co. is doing reasonably well.

Leasing co's must put more efforts to make leasing as more and more acceptable way of acquiring eqipment.

There is more potential for leasing in small and medium size manufacturing firms (segment B) and other non-manufacturing firms (segment A). The demand for modernizations is much more in the medium and small sector firms and also there is a great shortage of funds in these

segments. Most of the leasing co's are running after the big co's due to which rental rates have come down. Though the risk involved in such deals is less the rental rates are also low. So a judicious mix is required to maximize the profits at a reasonable level of risk.

Leasing as an Institution:

It is unfortunate that as a part of rapid growth of lease financing there has been a great deal of confused and fallacious thinking about the merits of financial leases. The most extravagent claim that is frequently made is that fianancial lease releases working capital for more productive use. This statement is simply not true, all that a financial lease does is to provide another way of borrowing money and money may then be put to productive uses within the company.

Financial leases do offer some sound advantages however. Financial leases may permit a firm to increase the percentage of debt type funds in its capital structure when more conventional sources of debt would not be readily available. Such a change in capital structure should of course be a conscious decision on the part of the management. We might in fact say that the primary advantage of lease financing is that it appears to be a new concept in corporate finance and it may not be an oversimplification to say that

lease financing has done nothing more than to become a socially acceptable way for a corporation to sell additional fixed obligations.

The words 'socially acceptable ' should be emphasized; except in rare cases, it is unlikely that the use of lease financing has permitted a corporation to sell more fixed obligations in total than it would have sold using second-mortgage bonds or some form of commercial credit. These later forms of debt financing however carry an stigma of weakness and one of the reasons that lease financing has grown so fast it that it has avoided this stigma to some extent .

Because lease financing is a financially acceptable method of raising funds, it has also been appealing to firms that enjoy a relatively high credit standing. One of the advantages is that a financial lease provides a respectable way of broadening a corporations sources of credit. Another reason why blue chip co's engage in leasing is purely because of the convenience of it. A financial lease offers a neatly packaged collection of financial services and the lessee is able to obtain precisely the amount of funds he desires, at precisely the time he needs them rather than buying debt funds in bulk (through large security issues) and storing them until they are

needed. It may be true that lease financing costs a little more but the costs of direct debt are difficult to measure and after all the convenience is worth taking.

One of the sharpest criticisms of lease financing which is sometimes made is that the practice is unethical and may be engaged in by corporations who are trying to avoid the legal or moral committments of their credit agreements. A change in accounting procedure to require the reporting of lease obligations in a manner similar to that for debt obligations would clearly eliminate lease financing, that has been inspired solely for purposes of avoiding disclosures of future obligations. Such a change would also remove the smudge on the honorability of lease financing and might in fact increase its popularity.

Finally lease financing will probably continue to be attractive to companies with poorer credit standings who would wish to use it in lieu of other types of commercial credit. When used this way lease financing will continue to be an expensive method of financing.

The effect of financial leases on corporate credit policies cannot be stated categorically. It is a matter of judgement of individuals both inside and outside

the firm. When management sets its own limitation on the use of corporate credit (i.e. uses less credit than the financial institutions would readily make available) that must be reflection of the degree of risk which management feels is prudent to assume. In such a case, financial leases which are simply another way of gaining credit, should be considered as quite similar to debt and they must be compared in cost with the debt as well as the other advantages must be weighed properly.

In other cases the judgement of financial institutions about the appropriate amount of leverage may be more restrictive than management's judgement. Here financial leases provide a new source of credit and thus extend the corporation's credit pool. In such cases the management may wish to sell more fixed obligations then conventional financial institution are willing to purchase. Not infrequently this increased used of corporate credit is accomplished by paying a significantly higher rate of interest to a leasing company.

The demand for lease financing depends very much on the role played by financial institutions and banks and how these institutions treat lease obligations.

It is only a matter of time when reporting of lease transations as a footnote to the balance sheet is

made compulsory. The off balance sheet advantages of lease will then vanish.

Finally leasing cannot be expected to finance large projects. leasing cannot also substitute institutional finance and at no time can it provide money at a cost less than that of institutional lending. Leasing is therefore to be visualized as something supplementary to institutional finance.

REFERENCES

Books:

1. Rajas Parachure (1984), <u>Lease Financiang</u> . The Time of India Research Foundation.

2. Richard F. Vancil (1963), <u>Leasing of Industrial Equipment.</u> Mcgraw - Hill Company.

Magazines:

1. <u>Business India</u> Jan. 16-29.
2. <u>Commerce</u> May 28, 1983.
3. <u>Economic Scene</u> July 84.

Q.1 Leasing companies claim that leasing has several advantages compared to other means of acquiring equipment. Some of these claims are given below in the form of statements. Please read each statement and tick whether you agree with it or not. Also, if you agree, please indicate on the right hand side the degree of influence it has on a decision to acquire equipment on lease. If you disagree with the claim, please ignore the right hand side.

Agree	Disagree	Statement	Strong influence on decision to lease	Moderate influence	No influence
		1. Lease conserves cash flow by providing finance and allows a firm to employ its funds for working capital requirements.			
		2. Rental charges of a lease are deductible from pretax profits.			
		3. Formalities to be gone through for obtaining lease finance are much less than institutional finance.			
		4. By going on lease a firm can obtain funds without subjecting itself to restrictions imposed by institutional finance.			
		5. Lease obligations are not reported as company's liabilities. So company's ability to raise credit from other sources remains unaffected.			
		6. Lease provides almost 100% finance while banks and financial institutions require contribution from borrower also.			
		7. Financial institutions generally sanction funds only for specific projects and not for few pieces of equipment. In such cases leasing provides a means to acquire equipment without straining the cash reserves of the company.			

Agree	Disagree	Statement	Strong influence on decision to lease	Moderate influence	No influence
		8. Due to tax advantages leasing is generally more profitable than other alternatives.			
		9. A leased equipment has no restrictions on use and is as good as one's own asset.			
		10. Leasing reduces the risk of being burdened with equipment which is no more needed, due to obsolescence or other reasons.			

Q. 2a Please indicate the types of equipment which you have leased in the past. (TIC

1. Generator set
2. Vehicles (excluding Forklift trucks)
3. Material handling equipment
4. Air conditioning and Refrigeration equipment
5. Manufacturing machinery
6. Computers and data processing equipment
7. Other office equipment
8. Any other ....

Q. 2b If you recall the first equipment lease entered into by your company could you mention the year __________.

The type of equipment __________.

2c. Have you ever entered into an operating lease (i.e. you have the option of terminating the lease at any time during the lease period upon giving a due notice).

Yes/NO

If yes how often you have entered into operational leases.

Only Once / In few deals / In many deals

2d. Could you give us the approximate total value of leased equipment that you presently have, separately for each of the following segments.

Segment	Approximate Value of assets acquired on lease (Rs. Lakhs)
1. Generator Set	________
2. Vehicles	________
3. Material handling equipment	________
4. Airconditioning and Refrigeration equipment	________
5. Computers and data processing equipment	________
6. Manufacturing machinery	________
7. Other office equipment	________
8. Others	________

We would now like you to speak with reference to one or a few prominent lease contracts of your company of the recent past with which you are familiar.

Q. 3 With reference to these deals how did the question of leasing generally come up? (TICK).

(a) A leasing company approached us with a proposal.

(b) A capital investment proposal was faced with shortage of funds and we were forced to consider leasing.

(c) Leasing had emerged as a new method of acquiring equipment, so we wanted to consider it as one of the alternatives and made the necessary approach.

(d) Any other reason ______.

Q.4 Before you finally want for leasing did you also consider any proposal for.

1. Outright purchase Yes/NO

2. Term loan Yes/NO

4b. Did you make any formal analysis comparing lease vs. term loan vs. outright purchase regarding

a. Future cash flows Yes/NO

b. Return on investment Yes/NO

c. Any other criteria

4c. Who were the main people in the organisation involved in the analysis.

Finance Manager or Controller / Accounts Manager / Corporate Planning Manager / Others (specify)

Q. 5a. How many leasing proposals did you generally obtain.________

5b. Were these leasing proposals. (TICK One)

Significantly different from one another / Somewhat Different / Almost Similar

5c. Did any of these leasing companies send their own sales team to discuss with you their proposals.

Yes/NO

Were these sales team effective Yes/NO

Can you give some positive and negative aspects of the sales team .

Positive	Negative

5.

5d. If no sales team visited you, do you think such visit would be useful.

Yes/NO

Q. 6a. In the screening of leasing proposals, there may be a number of criteria given below. However, all may not be equally important. Can you identify the criterion which was most important for you? Put "1" against this in the space provided. Put "2" for the next most important criterion and so on.

__________ Average rental rate.

__________ Suitability of rental payment plan

__________ Less restrictions on use of equipment

__________ Availability of better option at the termination of the lease.

__________ Reputation of the leasing company

__________ Availability of appropriate cancellation option during the period of leasing contract.

__________ Link up between lessor and specific manufacturer

__________ Availability of service support

__________ Any other.

6b. Who were the main people in the company involved in screeing the proposals (not analysis of proposals).

Give designations

6c. Who in the company finally approved the decision to make a deal with a specific lessor.

Designation

6d. Before you made the final choice of the lessor did you conduct any negotiations to get more favourable terms.
Yes/No

With howmany companies __________.

Q. 7a. While evaluating the leasing proposal did you consult. (TICK)

i) Other lessees

ii) Bank acting as a lease broker

iii) Other lease brokers

iv) Consultants

7b. In case you consulted a lease broker/consultant/bank acting as a lease broker/other lessees, what was the effect of their advice on your choice of lessor?

	Significant effect	Moderate effect	No effect
1. Bank acting as a lease broker			
2. Other lease broker			
3. Consultants			
4. Other lessees			

7c. In case you consulted a bank acting as a broker/other lease broker how much did you depend on him (TICK ONE).

1. We got a package deal.
2. We negotiated with various leasing companies recommended by the broker.
3. We contacted some companies on our own, apart from those recommended by the lessor.
4. Some leasing companies contact us without broker's recommendation.
5. We consulted the broker/bank only for initial familiarization.

Q. 8. Do you recall seeing advertisements of leasing companies? Yes/NO.

If yes which companies and with what effect

Name of company	Name of media	Favourable effect	No effect	Unfavourable effect

Q.9a. In future acquisition of equipment by your company do you think the share of leased equipment is likely to rise/remain about the same/fall.

Q. 9b. In which of the following segments is the share of leasing likely to rise/remain the same/or fall in future (by your company).

Segment	Likely to rise	Likely to remain same	Likely to fall	Any specific reasons
1. Generators				
2. Vehicles				
3. Air conditioning and Ref. equipment				
4. Material Handling equipment				
5. Computer & Data processing equipment				
6. Manufacturing equipment.				
7. Other office equipment.				
8. Any other segment.				

Q. 10a Please write the main line of business of your firm

10b. Turnover (last financial year) Rs. Lakhs.

Total assets (end of last financial year) Rs. Lakhs.

Thank you so much for your help.